

110TH CONGRESS
2D SESSION

S. 2741

To amend the Internal Revenue Code of 1986 to provide for disability savings accounts, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MARCH 11, 2008

Mr. DODD introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to provide for disability savings accounts, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Disability Savings Act
5 of 2008”.

6 **SEC. 2. FINDINGS.**

7 Congress makes the following findings:

8 (1) Disability is a natural part of the human
9 experience. Individuals with disabilities have the
10 right to live independently, to exert control and

1 choice over their own lives, and to fully participate
2 in and contribute to their communities through full
3 integration and inclusion in the economic, political,
4 social, cultural, and educational mainstream of
5 American society.

6 (2) Americans with disabilities are more likely
7 to live in poverty than those without disabilities. Ac-
8 cording to the World Institute on Disability, over
9 one-third of adults with disabilities live in house-
10 holds with income of \$15,000 or less compared to
11 only 12 percent of those without disabilities. Accord-
12 ing to the 2005 American Community Survey, me-
13 dian annual earnings for individuals without a dis-
14 ability were \$25,000 compared with \$12,800 for
15 those with a severe disability.

16 (3) Families often provide the primary financial
17 assistance necessary for individuals with significant
18 disabilities who cannot support themselves. Families
19 supporting members with disabilities often experi-
20 ence substantial negative effects on the vocational
21 and economic health of the family.

22 (4) Individuals with disabilities often incur sig-
23 nificant additional costs related to services and sup-
24 ports necessary to maintain the health and inde-
25 pendence needed to fully participate in society.

1 (5) Throughout the years policymakers have
2 provided incentives to Americans to save money for
3 purposes such as home ownership, education and re-
4 tirement. Many of these benefits do not meet the
5 savings needs of individuals with disabilities and
6 their families.

7 (6) Encouraging individuals with disabilities
8 and their families to save funds will allow them to
9 achieve greater control, choice, participation in com-
10 munity, security, and independence in their lives.

11 **SEC. 3. PURPOSES.**

12 The purposes of this Act are as follows:

13 (1) To encourage and assist individuals and
14 families in saving private funds for the purpose of
15 supporting individuals with disabilities to maintain
16 health, independence, and quality of life.

17 (2) To provide secure funding for disability-re-
18 lated expenses on behalf of designated beneficiaries
19 with disabilities that will supplement, but not sup-
20 plant, benefits provided through private insurance,
21 the Medicaid program under title XIX of the Social
22 Security Act, the supplemental security income pro-
23 gram under title XVI of such Act, the beneficiary's
24 employment, and other sources.

1 **SEC. 4. DISABILITY SAVINGS ACCOUNTS.**

2 (a) IN GENERAL.—Subchapter F of chapter 1 of the
3 Internal Revenue Code of 1986 (relating to exempt organi-
4 zations) is amended by adding at the end the following
5 new part:

6 **“PART IX—DISABILITY SAVINGS ENTITIES**

“Sec. 530A. Disability savings accounts.

7 **“SEC. 530A. DISABILITY SAVINGS ACCOUNTS.**

8 “(a) DISABILITY SAVINGS ACCOUNT DEFINED.—For
9 purposes of this section, the term ‘disability savings ac-
10 count’ means a trust created or organized in the United
11 States by a qualified individual exclusively for the benefit
12 of a qualified beneficiary, but only if the written governing
13 instrument creating the trust meets the following require-
14 ments:

15 “(1) No contribution shall be accepted—

16 “(A) unless it is in cash, or

17 “(B) if such contribution would result in
18 the total aggregate contributions to such ac-
19 count exceeding \$1,000,000.

20 “(2) The trustee is a bank (as defined in sec-
21 tion 408(n)) or another person who demonstrates to
22 the satisfaction of the Secretary that the manner in
23 which that person will administer the trust will be
24 consistent with the requirements of this section or

1 who has so demonstrated with respect to any indi-
2 vidual retirement plan.

3 “(3) A qualified individual is designated for the
4 purpose of administering requests for distributions
5 from the trust.

6 “(4) No part of the trust assets will be invested
7 in life insurance contracts.

8 “(5) The assets of the trust shall not be com-
9 mingled with other property except in a common
10 trust fund or common investment fund.

11 “(6) Except as provided in subsection (c)(6), in
12 the case that the qualified beneficiary dies or ceases
13 to be a qualified beneficiary, all amounts remaining
14 in the trust up to an amount equal to the total med-
15 ical assistance paid for the qualified beneficiary
16 under any State Medicaid plan established under
17 title XIX of the Social Security Act shall be distrib-
18 uted to each such State.

19 “(b) TAX TREATMENT OF INCOME.—

20 “(1) IN GENERAL.—A disability savings ac-
21 count which has a value of \$250,000 or less for any
22 taxable year shall be exempt from taxation under
23 this subtitle. Notwithstanding the preceding sen-
24 tence, a disability savings account shall be subject to
25 the taxes imposed by section 511 (relating to imposi-

tion of tax on unrelated business income of charitable organizations).

“(2) TAXABLE ACCOUNTS.—Any disability savings account which is not exempt from tax under paragraph (1) shall be taxed in the same manner as a qualified disability trust (as defined in section 642(b)(2)(C)(ii)).

“(3) DETERMINATION OF VALUE.—The value of a disability savings account shall be deemed to be in excess of \$250,000 for a taxable year if the daily balance of such account (determined as of the close of business on any business day) exceeds \$250,000 for the majority of business days during such taxable year.

“(c) TAX TREATMENT OF DISTRIBUTIONS.—

“(1) IN GENERAL.—Any distribution from a disability savings account shall be included in the gross income of the qualified beneficiary in the manner provided in section 72.

“(2) DISTRIBUTIONS FOR QUALIFIED SERVICES OR PRODUCTS.—

“(A) IN GENERAL.—No amount shall be included in gross income under paragraph (1) if such amount is distributed—

1 “(i) for a qualified service or product,
2 and

3 “(ii) except as otherwise provided by
4 the Secretary, by means of an electronic
5 fund transfer to the person who provided
6 the qualified service or product.

7 “(B) QUALIFIED SERVICE OR PRODUCT.—

8 “(i) IN GENERAL.—The term ‘quali-
9 fied service or product’ means any service
10 or product which is provided to a qualified
11 beneficiary on account of such beneficiary’s
12 disability.

13 “(ii) CERTAIN SERVICES AND PROD-
14 UCTS INCLUDED.—Such term shall include
15 preschool education, postsecondary edu-
16 cation, tutoring, special education services,
17 training, employment supports, personal
18 assistance supports, community-based sup-
19 ports, respite care, clothing, assistive tech-
20 nology, home modifications, therapy, nutri-
21 tional management, out-of-pocket medical,
22 vision, or dental expenses, transportation
23 services, vehicle purchases or modifica-
24 tions, insurance premiums, habilitation and
25 rehabilitation services, funeral and burial

1 expenses, and any other service or product
 2 consistent with the purposes of this section
 3 and allowed under regulations established
 4 by the Secretary, in consultation with the
 5 Secretary of Health and Human Services.

6 “(iii) PROHIBITED SERVICES AND
 7 PRODUCTS.—Such term shall not include
 8 any service or product paid for by a third-
 9 party payer, such as private insurance or a
 10 Medicaid program under title XIX of the
 11 Social Security Act (42 U.S.C. 1396 et
 12 seq.).

13 “(C) DISALLOWANCE OF EXCLUDED
 14 AMOUNTS AS DEDUCTION, CREDIT, OR EXCLU-
 15 SION.—No deduction, credit, or exclusion shall
 16 be allowed to the taxpayer under any other sec-
 17 tion of this chapter for any qualified service or
 18 product to the extent taken into account in de-
 19 termining the amount of exclusion under this
 20 paragraph.

21 “(3) EXCEPTION FOR DISTRIBUTIONS RE-
 22 TURNED BEFORE CERTAIN DATE.—Paragraph (1)
 23 shall not apply to any distribution made from a dis-
 24 ability savings account during a taxable year on be-
 25 half of the qualified beneficiary if the qualified bene-

1 ficiary makes a contribution to such disability sav-
 2 ings account in an amount equal to the amount of
 3 such distribution before the date that is 180 days
 4 after such distribution was made.

5 “(4) ADDITIONAL TAX FOR DISTRIBUTIONS NOT
 6 USED FOR QUALIFIED SERVICES OR PRODUCTS.—
 7 The tax imposed by this chapter for any taxable
 8 year on any taxpayer who receives a payment or dis-
 9 tribution from an disability savings account which is
 10 includible in gross income shall be increased by 10
 11 percent of the amount which is so includible.

12 “(5) ROLLOVER CONTRIBUTIONS.—Paragraph
 13 (1) shall not apply to any amount paid or distrib-
 14 uted from a disability savings account to the extent
 15 that the amount received is paid, not later than the
 16 60th day after the date of such payment or distribu-
 17 tion, into—

18 “(A) another disability savings account for
 19 the benefit of—

20 “(i) the same qualified beneficiary, or

21 “(ii) an individual who—

22 “(I) is the spouse of the qualified
 23 beneficiary or bears a relationship to
 24 the qualified beneficiary which is de-
 25 scribed in section 152(d)(2), and

1 “(II) is a qualified beneficiary, or

2 “(B) any trust which is described in sub-
3 paragraph (A) or (C) of section 1917(d)(4) of
4 the Social Security Act and which is for the
5 benefit of and individual described in clause (i)
6 or (ii) of subparagraph (A).

7 The preceding sentence shall not apply to any pay-
8 ment or distribution if it applied to any prior pay-
9 ment or distribution during the 12-month period
10 ending on the date of the payment or distribution.

11 “(6) CHANGE IN BENEFICIARY.—Any change in
12 the beneficiary of a disability savings account shall
13 not be treated as a distribution for purposes of para-
14 graph (1) if the new beneficiary is an individual de-
15 scribed in paragraph (5)(A)(ii) as of the date of the
16 change.

17 “(d) DEFINITIONS AND SPECIAL RULES.—For pur-
18 poses of this section—

19 “(1) QUALIFIED BENEFICIARY.—The term
20 ‘qualified beneficiary’ means any individual who—

21 “(A) is under the age of 65, and

22 “(B) has—

23 “(i) been determined by the Commis-
24 sioner of Social Security or the Disability
25 Determination Service of a State to be—

1 “(I) blind (as determined under
 2 section 1614(a)(2) of the Social Secu-
 3 rity Act, but without regard to any in-
 4 come or asset eligibility requirements
 5 that apply under such title), or

6 “(II) disabled (as determined
 7 under section 1614(a)(3) of the Social
 8 Security Act, but without regard to
 9 any income or asset eligibility require-
 10 ments that apply under such title, or
 11 under section 216(d) of such Act),
 12 and

13 “(ii) not been determined by the Com-
 14 missioner of Social Security or the Dis-
 15 ability Determination Service of a State to
 16 be no longer blind or disabled (as so de-
 17 fined).

18 The term ‘Disability Determination Service’ means,
 19 with respect to each State, the entity that has an
 20 agreement with the Commissioner of Social Security
 21 to make disability determinations for purposes of
 22 title II or XVI of the Social Security Act.

23 “(2) QUALIFIED INDIVIDUAL.—The term ‘quali-
 24 fied individual’ means, with respect to any disability
 25 savings account—

1 “(A) the qualified beneficiary,

2 “(B) any individual—

3 “(i) who is the spouse of the qualified
4 beneficiary or bears a relationship to the
5 qualified beneficiary which is described in
6 section 152(d)(2), or

7 “(ii) provides over one half of such
8 qualified beneficiary’s support,

9 “(C) the legal guardian of the qualified
10 beneficiary, or

11 “(D) in the case of any qualified bene-
12 ficiary who is in the legal custody of a State or
13 any agency thereof, any individual appointed
14 for purposes of this paragraph by a court of
15 competent jurisdiction.

16 “(3) ACCOUNT TERMINATIONS, ETC.—

17 “(A) PROHIBITED TRANSACTIONS.—If,
18 during any taxable year of the qualified indi-
19 vidual designated under subsection (a)(3), such
20 qualified individual or the qualified beneficiary
21 of the disability savings account engages in any
22 transaction prohibited under section 4975, such
23 account ceases to be an disability savings ac-
24 count as of the first day of such taxable year.

1 “(B) EFFECT OF PLEDGING ACCOUNT AS
 2 SECURITY.—If, during any taxable year of the
 3 qualified beneficiary, the qualified beneficiary
 4 uses the account or any portion thereof as secu-
 5 rity for a loan, the portion so used is treated
 6 as distributed to the qualified beneficiary.

7 “(4) ONLY 1 ACCOUNT PER QUALIFIED BENE-
 8 FICIARY.—No individual who is a qualified bene-
 9 ficiary may have more than 1 disability savings ac-
 10 count. The Secretary may promulgate regulations
 11 necessary to carry out the purposes of this para-
 12 graph.

13 “(e) REPORTS.—The trustee of a disability savings
 14 account shall make such reports regarding such account
 15 to the Secretary and to the qualified individual designated
 16 under subsection (a)(3) with respect to contributions, dis-
 17 tributions, fees (including the maximum, minimum, and
 18 average fees for such accounts), and such other matters
 19 as the Secretary may require. The reports required by this
 20 subsection shall be filed at such time and in such manner
 21 and furnished to such individuals at such time and in such
 22 manner as may be required.

23 “(f) REGULATIONS.—The Secretary, in consultation
 24 with the Secretary of Health and Human Services, shall
 25 prescribe such regulations as may be necessary to carry

1 out the purposes of this section and to prevent the abuse
2 of such purposes.”.

3 (b) ROLLOVERS FROM QUALIFIED TUITION PRO-
4 GRAMS.—Paragraph (3) of section 529(c) of the Internal
5 Revenue Code of 1986 is amended by adding at the end
6 the following new subparagraph:

7 “(E) ROLLOVERS TO DISABILITY SAVINGS
8 ACCOUNTS.—

9 “(i) IN GENERAL.—Subparagraph (A)
10 shall not apply to that portion of any dis-
11 tribution which, within 60 days of such
12 distribution, is transferred to a disability
13 savings account with respect to which the
14 designated beneficiary is the qualified ben-
15 eficiary (as defined by section 530A(d)(1)).

16 “(ii) LIMITATION.—Clause (i) shall
17 not apply to any transfer if a prior trans-
18 fer described in clause (i) has occurred at
19 any time preceding such transfer.”.

20 (c) TAX ON PROHIBITED TRANSACTIONS.—

21 (1) IN GENERAL.—Paragraph (1) of section
22 4975(e) of the Internal Revenue Code of 1986 is
23 amended by striking “or” at the end of subpara-
24 graph (F), by redesignating subparagraph (G) as

1 subparagraph (F), and by inserting after subpara-
 2 graph (F) the following new subparagraph:

3 “(G) a disability savings account described
 4 in section 530A(a), or”.

5 (2) SPECIAL RULE.—Section 4975(c) of such
 6 Code is amended by adding at the end the following
 7 new paragraph:

8 “(7) SPECIAL RULE FOR DISABILITY SAVINGS
 9 ACCOUNTS.—A qualified beneficiary (as defined by
 10 section 530A(d)(1)) shall be exempt from the tax
 11 imposed by this section with respect to any trans-
 12 action concerning a disability savings account (as de-
 13 fined by section 530A(a)) which would otherwise be
 14 taxable under this section if, with respect to such
 15 transaction, the account ceases to be a disability sav-
 16 ings account by reason of the application of section
 17 530A(d)(3)(A) to such account.”.

18 (d) FAILURE TO PROVIDE REPORTS ON DISABILITY
 19 SAVINGS ACCOUNTS.—Paragraph (2) of section 6693(a)
 20 of the Internal Revenue Code of 1986 is amended by strik-
 21 ing “and” at the end of subparagraph (D), by striking
 22 the period at the end of subparagraph (E) and inserting
 23 “and”, and by inserting after subparagraph (E) the fol-
 24 lowing new subparagraph:

1 “(F) section 530A(e) (relating to disability
2 savings accounts).”.

3 (e) ANNUAL REPORTS TO CONGRESS.—The Sec-
4 retary of the Treasury, in consultation with the Secretary
5 of Health and Human Services and the Commissioner of
6 Social Security, shall report annually to Congress on the
7 usage of disability savings accounts.

8 (f) AUTHORIZATION OF APPROPRIATIONS.—There
9 are authorized to be appropriated to the Commissioner of
10 Social Security for fiscal years beginning with fiscal year
11 2007, such sums as may be necessary for certifying and
12 recertifying individuals as qualified beneficiaries for pur-
13 poses of section 530A(d)(1) of the Internal Revenue Code
14 of 1986 (as added by subsection (a)). Amounts appro-
15 priated pursuant to the preceding sentence may be used
16 by the Commissioner, as appropriate, for making pay-
17 ments to States for certifications and recertifications of
18 individuals as such beneficiaries that are made under an
19 agreement entered into between the Commissioner and by
20 the Disability Determination Service for the State.

21 (g) CLERICAL AMENDMENT.—The table of parts for
22 subchapter F of chapter 1 of the Internal Revenue Code
23 of 1986 is amended by adding at the end the following
24 new item:

“PART IX—DISABILITY SAVINGS ENTITIES”.

1 (h) EFFECTIVE DATE.—The amendments made by
 2 this section shall apply to taxable years beginning after
 3 December 31, 2007.

4 **SEC. 5. MATCHING TAX CREDIT FOR CONTRIBUTIONS TO**
 5 **DISABILITY SAVINGS ACCOUNTS.**

6 (a) IN GENERAL.—Subpart C of part IV of sub-
 7 chapter A of chapter 1 of the Internal Revenue Code of
 8 1986 (relating to refundable credits) is amended by redes-
 9 ignating section 36 as section 37 and by inserting after
 10 section 35 the following new section:

11 **“SEC. 36. DISABILITY SAVINGS ACCOUNT MATCHING CON-**
 12 **TRIBUTIONS.**

13 “(a) ALLOWANCE OF CREDIT.—In the case of a
 14 qualified individual, there shall be allowed as a credit
 15 against the tax imposed by this subtitle for the taxable
 16 year an amount equal to 50 percent of so much of the
 17 qualified disability savings contributions made during the
 18 taxable year as do not exceed \$2,000.

19 “(b) LIMITATIONS.—

20 “(1) LIMITATION BASED ON MODIFIED AD-
 21 JUSTED GROSS INCOME.—

22 “(A) IN GENERAL.—The amount which
 23 would (but for this paragraph) be taken into ac-
 24 count under subsection (a) for the taxable year

1 shall be reduced (but not below zero) by the
2 amount determined under subparagraph (B).

3 “(B) AMOUNT OF REDUCTION.—The
4 amount determined under this subparagraph is
5 the amount which bears the same ratio to the
6 amount which would be so taken into account
7 as—

8 “(i) the excess of—

9 “(I) the taxpayer’s modified ad-
10 justed gross income for the taxable
11 year, over

12 “(II) the applicable amount,
13 bears to

14 “(ii) the phaseout amount.

15 “(C) APPLICABLE AMOUNT; PHASEOUT
16 AMOUNT.—For purposes of subparagraph (B),
17 the applicable amount and the phaseout amount
18 shall be determined as follows:

“	The applica- ble amount is:	The phase- out amount is:
In the case of a joint return	\$60,000	\$10,000
In the case of a head of household	\$45,000	\$7,500
In any other case	\$30,000	\$5,000.

19 “(D) MODIFIED ADJUSTED GROSS IN-
20 COME.—For purposes of this paragraph, the
21 term ‘modified adjusted gross income’ means

the adjusted gross income of the taxpayer for the taxable year increased by any amount excluded from gross income under section 911, 931, or 933.

“(E) INFLATION ADJUSTMENT.—In the case of any taxable year beginning in a calendar year after 2008, each of the applicable amounts in the second column of the table in subparagraph (C) shall be increased by an amount equal to—

“(i) such dollar amount, multiplied by

“(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, determined by substituting ‘calendar year 2007’ for ‘calendar year 1992’ in subparagraph (B) thereof.

Any increase determined under the preceding sentence shall be rounded to the nearest multiple of \$500.

“(2) EARNED INCOME LIMITATION.—The amount of the credit allowable under subsection (a) to any taxpayer for any taxable year shall not exceed the earned income (as defined by section 32(c)(2)) of such taxpayer for such taxable year.

1 “(c) QUALIFIED INDIVIDUAL.—For purposes of this
 2 section, the term ‘qualified individual’ means the indi-
 3 vidual designated as the qualified individual of the dis-
 4 ability savings account (as defined in section 530A(a)).

5 “(d) QUALIFIED DISABILITY SAVINGS CONTRIBU-
 6 TIONS.—The term ‘qualified disability savings contribu-
 7 tions’ means, with respect to any taxable year, the aggre-
 8 gate contributions made by the taxpayer to the disability
 9 savings account (as so defined) with respect to which such
 10 taxpayer is the qualified individual.

11 “(e) TREATMENT OF CONTRIBUTIONS BY DEPEND-
 12 ENT.—If a deduction under section 151 with respect to
 13 an individual is allowed to another taxpayer for a taxable
 14 year beginning in the calendar year in which such individ-
 15 ual’s taxable year begins—

16 “(1) no credit shall be allowed under subsection
 17 (a) to such individual for such individual’s taxable
 18 year, and

19 “(2) any qualified disability savings contribu-
 20 tions made by such individual during such taxable
 21 year shall be treated for purposes of this section as
 22 made by such other taxpayer.”.

23 (b) REFUNDABLE AMOUNT CREDITED TO INDIV-
 24 VIDUAL DISABILITY ACCOUNT.—

1 (1) TRANSFER OF AMOUNT TO DISABILITY SAV-
 2 INGS ACCOUNTS.—Section 6402 of the Internal Rev-
 3 enue Code of 1986 (relating to authority to make
 4 credits or refunds) is amended by adding at the end
 5 the following new subsection:

6 “(1) SPECIAL RULE FOR OVERPAYMENTS ATTRIB-
 7 UTABLE TO CREDIT FOR CONTRIBUTIONS TO DISABILITY
 8 SAVINGS FUNDS.—

9 “(1) IN GENERAL.—In the case of any overpay-
 10 ment attributable to the credit allowed under section
 11 36, the Secretary shall transfer such amount to the
 12 disability savings account to which the taxpayer
 13 made a qualified disability savings contribution.

14 “(2) TRANSFERS TO MORE THAN 1 ACCOUNT.—
 15 If the taxpayer made qualified disability savings con-
 16 tributions to more than 1 disability savings account,
 17 the Secretary shall transfer the overpayment de-
 18 scribed in paragraph (1) to each such disability sav-
 19 ings account in an amount that bears the same ratio
 20 to the amount of such overpayment as—

21 “(A) the amount of qualified disability sav-
 22 ings contributions made by such taxpayer to
 23 such disability savings account, bears to

1 “(B) the amount of qualified disability sav-
 2 ings contribution made by such taxpayer to all
 3 disability savings accounts.

4 “(3) QUALIFIED DISABILITY SAVINGS CON-
 5 TRIBUTION.—For purposes of this subsection, the
 6 term ‘qualified disability savings contribution’ has
 7 the meaning given such term by section 36(d).”.

8 (2) SEPARATE ACCOUNTING FOR REFUNDABLE
 9 AMOUNTS.—

10 (A) IN GENERAL.—Section 530A(a) of
 11 such Code, as added by this Act, is amended by
 12 adding at the end the following new paragraph:

13 “(7) The trust provides a separate accounting
 14 for contributions transferred by the Secretary under
 15 section 6402(l).”.

16 (B) SPECIAL RULES FOR CONTRIBUTIONS
 17 ATTRIBUTABLE TO DISABILITY SAVINGS AC-
 18 COUNT CREDIT.—Section 530A of such Code,
 19 as added by this Act, is amended by adding at
 20 the end the following new subsection:

21 “(g) SPECIAL RULES FOR CONTRIBUTIONS ATTRIB-
 22 UTABLE TO CREDIT FOR DISABILITY SAVINGS ACCOUNT
 23 CONTRIBUTIONS.—

24 “(1) INCREASE IN ADDITIONAL TAX.—In the
 25 case of a distribution which includes an amount

transferred by the Secretary under section 6402(l)
 (including any earnings attributable to such amount)
 and which, but for this paragraph, would be includ-
 ible in gross income—

“(A) such amount shall not be included in
 gross income, and

“(B) subsection (c)(4) shall be applied by
 substituting ‘100 percent’ for ‘10 percent’.

“(2) ORDERING RULES.—For purposes of ap-
 plying this subsection to any distribution from a dis-
 ability savings account—

“(A) IN GENERAL.—Except as provided in
 subparagraph (B), such distribution shall be
 treated as made—

“(i) first from amounts contributed to
 the account other than by reason of section
 6402(l), and

“(ii) second from amounts transferred
 by the Secretary under section 6402(l).

“(B) EXCEPTION FOR DISTRIBUTIONS FOR
 QUALIFIED SERVICES OR PRODUCTS.—In the
 case of a distribution for qualified services or
 products, such distribution shall be treated as
 made—

1 “(i) first from amounts transferred by
 2 the Secretary under section 6402(l), and
 3 “(ii) second from other amounts con-
 4 tributed to the account.”.

5 (c) CONFORMING AMENDMENTS.—

6 (1) Section 1324(b)(2) of title 31, United
 7 States Code, is amended by inserting before the pe-
 8 riod at the end “, or enacted by the Disability Sav-
 9 ings Act of 2008”.

10 (2) The table of sections for subpart C of part
 11 IV of subchapter A of chapter 1 of the Internal Rev-
 12 enue Code of 1986 is amended by striking the item
 13 relating to section 36 and inserting the following:

“Sec. 36. Disability savings account matching contributions.
 “Sec. 37. Overpayments of tax.”.

14 (d) EFFECTIVE DATE.—The amendments made by
 15 this section shall apply to taxable years beginning after
 16 December 31, 2007.

17 **SEC. 6. CREDIT TO INSTITUTIONS FOR MAINTAINING DIS-**
 18 **ABILITY SAVINGS ACCOUNTS.**

19 (a) IN GENERAL.—Subpart D of part IV of sub-
 20 chapter A of chapter 1 of the Internal Revenue Code of
 21 1986 (relating to business related credits) is amended by
 22 adding at the end the following new section:

1 **“SEC. 450. DISABILITY SAVINGS ACCOUNT INVESTMENT**
 2 **CREDIT.**

3 “(a) DETERMINATION OF AMOUNT.—For purposes of
 4 section 38, the disability savings account investment credit
 5 determined under this section with respect to any eligible
 6 entity for any taxable year is an amount equal to the dis-
 7 ability savings account investment provided by such eligi-
 8 ble entity during the taxable year.

9 “(b) DISABILITY SAVINGS ACCOUNT INVESTMENT.—
 10 For purposes of this section, the term ‘disability savings
 11 account investment’ means an amount equal to \$50 with
 12 respect to each disability savings account (as defined in
 13 section 530A(a)) maintained—

14 “(1) as of the end of such taxable year, but
 15 only if such taxable year is within the 7-taxable-year
 16 period beginning with the taxable year in which such
 17 Account is opened, and

18 “(2) with a balance of not less than \$100
 19 (other than the taxable year in which such account
 20 is opened).

21 “(c) ELIGIBLE ENTITY.—For purposes of this sec-
 22 tion, except as provided in regulations, the term ‘eligible
 23 entity’ means any entity which is the trustee of a disability
 24 savings account (as so defined).

25 “(d) DENIAL OF DOUBLE BENEFIT.—

1 “(1) IN GENERAL.—No deduction or credit
 2 (other than under this section) shall be allowed
 3 under this chapter with respect to any expense
 4 which is attributable to the maintenance of a dis-
 5 ability savings account.

6 “(2) DETERMINATION OF AMOUNT.—Solely for
 7 purposes of paragraph (1), the amount attributable
 8 to the maintenance of a disability savings account
 9 shall be deemed to be the dollar amount of the credit
 10 allowed under this section for each taxable year such
 11 disability savings account is maintained.”.

12 (b) CREDIT TREATED AS BUSINESS CREDIT.—Sec-
 13 tion 38(b) of such Code (relating to current year business
 14 credit) is amended by striking “plus” at the end of para-
 15 graph (30), by striking the period at the end of paragraph
 16 (31) and inserting “, plus”, and by adding at the end the
 17 following new paragraph:

18 “(32) the disability savings account investment
 19 credit determined under section 45O(a).”.

20 (c) CONFORMING AMENDMENT.—The table of sec-
 21 tions for subpart C of part IV of subchapter A of chapter
 22 1 of such Code is amended by adding at the end the fol-
 23 lowing new item:

“Sec. 45O. Disability savings account investment credit.”.

1 (d) EFFECTIVE DATE.—The amendments made by
 2 this section shall apply to taxable years ending after De-
 3 cember 31, 2007.

4 **SEC. 7. TREATMENT OF DISABILITY SAVINGS ACCOUNTS**
 5 **UNDER CERTAIN FEDERAL PROGRAMS.**

6 (a) TREATMENT AS A MEDICAID EXCEPTED
 7 TRUST.—Paragraph (4) of section 1917(d) of the Social
 8 Security Act (42 U.S.C. 1396p(d)(4)) is amended by add-
 9 ing at the end the following new subparagraph:

10 “(D) A trust which is a disability savings ac-
 11 count described in section 530A(a) of the Internal
 12 Revenue Code of 1986.”.

13 (b) ACCOUNT FUNDS DISREGARDED FOR PURPOSES
 14 OF CERTAIN OTHER MEANS-TESTED FEDERAL PRO-
 15 GRAMS.—

16 (1) IN GENERAL.—For purposes of determining
 17 eligibility for any applicable program, any amount
 18 (including earnings thereon) in any disability savings
 19 account (as defined in section 530A(a) of the Inter-
 20 nal Revenue Code of 1986) established for the ben-
 21 efit of such individual and any distribution for quali-
 22 fied services or products (as defined in section
 23 530A(c)(2)(B)) from such account shall be dis-
 24 regarded with respect to any period during which
 25 such individual maintains, makes contributions to,

1 or receives distributions from such disability savings
2 account.

3 (2) APPLICABLE PROGRAM.—For purposes of
4 this subsection, the term “applicable program”
5 means—

6 (A) the temporary assistance for needy
7 families program funded under part A of title
8 IV of the Social Security Act (42 U.S.C. 601 et
9 seq.);

10 (B) a State program funded under part B
11 or E of title IV of such Act (42 U.S.C. 621 et
12 seq., 670 et seq.);

13 (C) a State program funded under part D
14 of title IV of such Act (42 U.S.C. 651 et seq.);

15 (D) the supplemental security income pro-
16 gram established under title XVI of such Act
17 (42 U.S.C. 1381 et seq.);

18 (E) the Medicaid program under title XIX
19 of the such Act (42 U.S.C. 1396 et seq.);

20 (F) the State children’s health insurance
21 program under title XXI of such Act (42
22 U.S.C. 1397aa et seq.);

23 (G) the food stamp program established
24 under the Food Stamp Act of 1977 (7 U.S.C.
25 2011 et seq.);

1 (H) the special supplemental nutrition pro-
 2 gram for women, infants, and children estab-
 3 lished by section 17 of the Child Nutrition Act
 4 of 1966 (422 U.S.C. 1786);

5 (I) a child nutrition program, as defined in
 6 section 25(b) of the Richard B. Russell Na-
 7 tional School Lunch Act (42 U.S.C. 1769f(b));
 8 and

9 (J) any Federal low-income housing assist-
 10 ance program.

11 **SEC. 8. MARKETING, OUTREACH, AND EDUCATION FOR DIS-**
 12 **ABILITY SAVINGS ACCOUNTS.**

13 (a) IN GENERAL.—Not later than 180 days after the
 14 date of the enactment of this Act, the Secretary of Health
 15 and Human Services shall establish a program for mar-
 16 keting, outreach, and education related to disability sav-
 17 ings accounts (as defined in section 530A(a) of the Inter-
 18 nal Revenue Code of 1986). Such program may utilize
 19 contracts with nonprofit organizations established for the
 20 purpose of assisting individuals with disabilities.

21 (b) AUTHORIZATION OF APPROPRIATIONS.—There
 22 are authorized to be appropriated such sums as may be
 23 necessary to carry out the program established under sub-
 24 section (a).

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